Gold by Montresor

Central banks against the nation-states

Cons Gold's report confirms that the families plan a market setup that only they can afford to maintain.

The annual report of Consolidated Gold Fields Limited, "Gold 1981," issued in May, more than bears out our judgment of two weeks ago that the private fortunes of Europe view the current chaotic bear market in gold as an opportunity to buy cheaply. Indeed, Cons Gold, the heirs to the empire of Cecil Rhodes, all but say that the chaos is their deliberate creation.

Group executive David Potts centers attention on the central banks, led by the Swiss-based Bank for International Settlements. In the midst of the worst bear market since 1975, in which the gold price has tumbled by 44 percent from a high of $850 in December 1980 to $470 and below by March 1981, the central banks have conducted their largest new purchases of gold since the October 1973 oil shock.

"An outstanding feature of 1980," Potts writes, "was the *reversal* of the flow of gold, which had occurred in each year between 1973 and 1979 from the official sector [central banks] to the private sector." Instead, during 1980, central bank purchases of gold "exceeded sales by 230 metric tons, compared with net sales [to the private market] of 544 tons in 1979."

This trend, which is expected to continue throughout 1981 and beyond, is not led by the nations of the gold-based European Monetary System, but by those central banks in position to dictate economic policy to their captive nation-states. These are the central banks of the United States, South Africa, Switzerland, and the International Monetary Fund.

These central banks have operated quietly, Potts notes, following a medium- to long-term strategy, As distinct from Indonesia, which made a rather publicized purchase of 66 tons, "several other central banks acquired gold without attracting the same degree of attention. There was evidence of countries making small but regular purchases, and this is the best policy to adopt if there is clear conviction that gold will be useful in preserving the real value of assets over long periods of time, and the buyer is unlikely to be forced into a selling position."

Meanwhile, every investor in the gold market who did not have the long-term resources and attention span of the great private families or the central banks was forced out of the market by savage price swings and 20 percent interest rates, which made the cost of financing gold inventories prohibitive.

"These massive price fluctuations are an inevitable consequence of the present structure of the market," says Mr. Potts, who does not add that this structure is set by the central banks and a few family - oriented private bankers. Given the Federal Reserve's high interest policy, "dramatic moves will result. Rises and falls of $20 per day and $50 per week can be expected. These operations can be repeated several times."

All the while, Cons Gold predicts, the United States is considering gold remonetization. While offering no evidence that the U.S. has actually accumulated gold, Mr. Potts estimates the United States will never resume gold sales. He predicts that the U.S. Senate committee led by Jesse Helms (R-N.C.) studying the use of gold for monetary purposes may take the opportunity presented by inflation and the "inevitable" instability of the dollar to "revalue and present it as independent act of policy." This in turn "would be the final signal for many financial institutions and some remaining central banks to enter the gold market."

Cons Gold further urges America not to interfere with the admittedly chaotic gold market structure. The Helms committee "should avoid the temptation to recommend complicated and rigid schemes [which] soon get overtaken by the market," Mr. Potts warns. "They should only incorporate changes which have already achieved a high degree of acceptance in the financial markets of the private sector."

What emerges is a 19th-century gold system in which only the old families and their central banks can afford gold and to maintain the value of their assets. Other investors are forced into high interest-rate paper, rapidly depreciating through What Mr. Potts calls "a permanent inflation problem." Under such a system, credit for industry would be greatly reduced, an "upward spiral in inflation rates" assured, and the long-term price of gold certain to rise, Potts concludes.

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